

Message Text

UNCLASSIFIED

PAGE 01 TOKYO 02874 01 OF 02 221044Z
ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-15 AID-05 EB-08
NSC-05 SS-15 STR-07 OMB-01 CEA-01 CIAE-00 COME-00
FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04
SIL-01 /110 W
-----114824 221051Z /21

P R 220930Z FEB 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 5464
TREASURY DEPT WASHDC
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

UNCLAS SECTION 1 OF 2 TOKYO 2874

USEEC

USOECD ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - FEB 16-22

1. SUMMARY. DIET BEGINS DEBATE ON OPPOSITION PARTIES' PROPOSED BUDGET AMENDMENTS. JAPAN'S TOP PLYWOOD SUPPLIER AND LEADING PREFAB HOUSING CONSTRUCTION FIRM VIRTUALLY BANKRUPT. UPWARD PRESSURES ON THE YEN REAPPEAR IN THE FOREIGN EXCHANGE MARKET, AS DOES THE BANK OF JAPAN. ALTHOUGH IN DEFICIT ON A SEASONALLY UNADJUSTED BASIC, JAPAN'S CURRENT ACCOUNT SURPLUS IN JAN RISES TO \$1.5 BIL SEASONALLY ADJUSTED. DEPARTMENT STORE SALES IN JAN, FOR SECOND MONTH, SHOW SOME SIGNS OF PICKUP. END SUMMARY.

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 TOKYO 02874 01 OF 02 221044Z

2. ON FEB 20 FIVE OPPOSITION PARTIES PRESENTED A JOINT PROPOSAL TO THE RULING LIBERAL DEMOCRATIC PARTY (LDP) FOR FY 1978 BUDGET AMENDMENTS TOTALING 1.2 TRILLION YEN. THE PROPOSAL CONSISTS OF CUTS IN PERSONAL INCOME TAXES TOTALING 550 BIL YEN, REDUCTIONS OF 120 BIL YEN IN THE LOCAL INHABITANTS TAX AND A REALLOCATION OF 491 BIL YEN IN PROPOSED SPENDING IN FAVOR OF GREATER OUTLAYS FOR WELFARE AND

HOUSING PROGRAMS. THE OPPOSITION WOULD FINANCE THE EXTRA SPENDING BY REDUCING EXPENDITURES FOR PUBLIC WORKS AND DRAWING ON BUDGETED RESERVES, THUS LEAVING THE OVERALL SPENDING TOTAL FOR THE GENERAL ACCOUNT BUDGET UNCHANGED AT 34.3 TRILLION YEN. HOWEVER, THE OPPOSITION PARTIES HAVE BEEN UNABLE TO AGREE ON A METHOD TO FINANCE THE PROPOSED TAX CUTS. THE BUDGET COMMITTEE OF THE LOWER HOUSE BEGAN DISCUSSION OF THE TAX CUT PROPOSAL ON FEB 21. IT IS WIDELY BELIEVED THAT THE GOVT AND LDP WILL MAKE SOME ACCOMMODATION TO THE OPPOSITION PARTIES IN ORDER TO SECURE TIMELY PASSAGE OF THE BUDGET. IT IS ESTIMATED THAT TO SECURE FINAL DIET APPROVAL BY THE BEGINNING OF THE NEW FISCAL YEAR (APRIL 1), THE BUDGET MUST PASS THE LOWER HOUSE BY MARCH 3.

3. EIDAI CO, JAPAN'S TOP PLYWOOD SUPPLIER AND LEADING PREFAB HOUSING CONSTRUCTION FIRM, APPLIED TO OSAKA DISTRICT COURT FEB 20 FOR PROTECTION UNDER THE CORPORATE REHABILITATION LAW, THUS PUTTING ITSELF IN A POSITION USUALLY DESCRIBED AS "VIRTUALLY BANKRUPT." WITH LIABILITIES, INCLUDING THOSE OF FOUR SUBSIDIARIES, ESTIMATED AT 180 BIL YEN, EIDAI'S FAILURE IS THE SECOND LARGEST SINCE THE WAR (AFTER THE SYNTHETIC TEXTILE MAKER, KOHJIN CO, WHICH COLLAPSED IN AUG 1975 WITH DEBTS AMOUNTING TO 200 BIL YEN. EIDAI'S BUSINESS HAS BEEN IN A SLUMP SINCE THE AUTUMN OF 1975). WHEN FIVE MAJOR BANK, HEADED BY DAIWA BANK, FAILED IN RECENT DAYS TO AGREE ON A FORMULA FOR FURTHER FINANCIAL SUPPORT OF THE FIRM'S UNCLASSIFIED

UNCLASSIFIED

PAGE 03 TOKYO 02874 01 OF 02 221044Z

REHABILITATION EFFORTS, EIDAI FINALLY HAD TO SEEK LEGAL PROTECTION. JAPANESE STOCK EXCHANGES SUSPENDED TRANSACTIONS IN ITS STOCK AND CONVERTIBLE DEBENTURES FEB 20. EIDAI CONVERTIBLE BONDS ARE ALSO LISTED ON THE LUXEMBOURG EXCHANGE AND ITS STOCK IS LISTED ON THE HONG KONG AND AMSTERDAM STOCK EXCHANGES. DAIWA BANK IS REPORTED TO BE PREPARED TO REDEEM THE \$3 MIL OF EIDAI'S CONVERTIBLE BONDS ISSUED ABROAD (WITH GUARANTEE OF DAIWA BANK), TO THE EXTENT THEY HAVE NOT BEEN CONVERTED INTO STOCK. THE EIDAI GROUP AS A WHOLE EMPLOYS ABOUT 4,000-5,000 WORKERS.

4. THE YEN STRENGTHENED THROUGHOUT THE PAST WEEK DESPITE HEAVY INTERVENTION BY BANK OF JAPAN AT THE 240 AND ABOVE LEVEL. AFTER TRADING QUIETLY ABOVE 241 FOR SEVERAL WEEKS, THE YEN BEGAN TO STRENGTHEN LAST WEEK. DOLLAR SELLING EMERGED IN TOKYO ON WED, FEB 15, PUSHING THE YEN TO 240.37 AT THE CLOSE. THE FOLLOWING DAY BOJ INTERVENTION OF \$150 MIL (PRESS ESTIMATE) WAS REQUIRED TO HOLD THE YEN AT 240.00 AND ON FRI, FEB 17, THE YEN JUMPED TO 239.20 DESPITE BOJ

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 TOKYO 02874 02 OF 02 221025Z
ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-15 AID-05 EB-08
NSC-05 SS-15 STR-07 OMB-01 CEA-01 CIAE-00 COME-00
FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04
SIL-01 /110 W
-----114699 221052Z /21

P R 220930Z FEB 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 5465
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

UNCLAS SECTION 2 OF 2 TOKYO 2874

INTERVENTION IN EXCESS OF \$100 MIL. ACCORDING TO PRESS
ACCOUNTS, A FURTHER \$10-20 MIL IN BOJ SUPPORT WAS EXPENDED
MON, FEB 20, TO KEEP THE RATE ABOVE 239.50. ON TUES, FEB
21, THE EXCHANGE RATE GAINED A FULL TWO YEN AT ONE POINT
TO REACH 237.10, JUST SHORT OF THE RECORD 237.00 HIGH SET
IN EARLY JAN. HOWEVER, WITH PERSISTENT INTERVENTION AND
RENEWED COMMERCIAL DEMAND FOR THE DOLLAR, THE YEN EDGED
BACK DOWN TO 238.80 AT THE CLOSE. THE YEN CONTINUED TO
TRADE ABOVE 238 IN MORNING TRADING FEB 22. MARKET COMMENT
GENERALLY ASCRIBES THE STRENGTHENING OF THE YEN TO A
REACTION TO EUROPEAN NERVOUSNESS ABOUT THE DOLLAR RATHER THAN
ANY NEW DEVELOPMENTS IN JAPAN.

5. JAPAN'S CURRENT ACCOUNT SURPLUS, S.A., ROSE TO \$1.5 BIL
IN JAN FROM \$1.0 BIL IN DEC 1977, ACCORDING TO
PRELIMINARY BALANCE OF PAYMENTS DATA RELEASED BY MINISTRY
OF FINANCE (MOF) FEB 17. ON AN UNADJUSTED BASIS CURRENT
ACCOUNT BALANCE DETERIORATED SHARPLY IN JAN, PRIMARILY
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 TOKYO 02874 02 OF 02 221025Z

REFLECTING SEASONAL SLOWDOWN OF EXPORTS, AND REGISTERED A

DEFICIT OF \$0.2 BIL. (THE JAN 77 N.S.A. DEFICIT WAS \$0.7 BIL.) CAPITAL TRANSACTIONS, ON THE OTHER HAND, SWUNG TO NET INFLOW OF \$1.4 BIL IN JAN FROM THE NET OUTFLOW OF \$0.7 BIL IN DEC 77. OUTFLOW OF LONG-TERM CAPITAL SLOWED TO LESS THAN \$0.1 BIL FROM \$0.2 BIL IN DEC WHILE COMMERCIAL BANKS IN JAPAN RECORDED NET IMPORTS OF \$1.4 BIL IN SHORT-TERM FUNDS AFTER BEING NET EXPORTERS (\$0.4 BIL) IN DEC. IN LONG-TERM CAPITAL TRANSACTIONS, OUTFLOWS OF JAPANESE CAPITAL (PRIMARILY BANK LENDING ABROAD AND FOREIGN YEN BOND ISSUES) WERE STRONG IN JAN, BUT WERE NEARLY OFFSET BY HEAVY FOREIGN PURCHASES OF JAPANESE BONDS, MOF OFFICIAL SAID.

6. DEPARTMENT STORES SALES, S.A., CONTINUED TO RISE IN JAN, UP 3.0 PERCENT OVER THE PRIOR MONTH'S LEVEL, ON TOP OF 2.4 PERCENT INCREASE IN DEC 1977. THE TWO-MONTH PICKUP IN DEPARTMENT STORES SALES STILL LEFT THEM UP ONLY 4.2 PERCENT OVER YEAR-EARLIER LEVELS BECAUSE OF THE WEAK PERFORMANCE DURING MUCH OF 1977. SALES OF SELF-SERVICE-TYPE RETAIL STORES RECORDED 13.2 PERCENT YEAR-OVER-YEAR INCREASE IN JAN 1978, COMPARED WITH 18.3 PERCENT INCREASE AVERAGE IN 1977.

TABLE 1. DEPARTMENT STORE SALES, S.A.

(1970 EQUALS 100; PERCENT CHANGE FROM PRIOR MONTH IN PAREN)

1977: NOV 257.6 (MIN 3.6)

DEC 263.8(R) (2.4)

1978: JAN 271.8 (3.0)

TABLE 2: SALES OF DEPARTMENT STORES AND LARGE-SCALE

SELF-SERVICE STORES, N.S.A. (IN BIL YEN; PERCENT

CHANGE FROM YEAR EARLIER IN PAREN)

DEPARTMENT STORES SELF-SERVICE STORES

1977: NOV 423.6 (3.0) 358.0 (17.1)

DEC 815.7(R) (6.0) 530.0 (14.1) (R)

1978: JAN 363.6 (4.2) 347.5 (13.2)

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 TOKYO 02874 02 OF 02 221025Z

7. UNIT LABOR COSTS, S.A., WERE UP IN DEC, THOUGH FOR THE OCT-DEC QUARTER, THEY REMAINED VIRTUALLY UNCHANGED FROM THE PRIOR QUARTER'S AVERAGE (UP ONLY 0.1 PERCENT). LABOR PRODUCTIVITY IN THE MACHINERY INDUSTRY IN OCT, THE LATEST MONTH FOR WHICH DATA ARE AVAILABLE, DECLINED FOR THE SECOND STRAIGHT MONTH AFTER SHARP IMPROVEMENT IN AUG.

LABOR CONDITIONS

JEI NO. SERIES (UNIT) OCT NOV DEC

421 UNIT LABOR COST (1970

EQUALS 100) 194.9 191.0 194.2

AUG SEP OCT

N/A LABOR PRODUCTIVITY,

MACHINERY 177.7 176.3(R) 172.9

(1970 EQUALS 100)

(NOTE: ALL SERIES ARE SEASONALLY ADJUSTED BY ECONOMIC
PLANNING AGENCY.)
MANSFIELD

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DEVELOPMENT, FINANCIAL PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 22 feb 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978TOKYO02874
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780079-0944
Format: TEL
From: TOKYO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780225/aaaaavgc.tel
Line Count: 227
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: e7789ed1-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3513955
Secure: OPEN
Status: NATIVE
Subject: FINANCIAL AND ECONOMIC DEVELOPMENTS - FEB 16-22
TAGS: EFIN, JA
To: STATE TRSY MULTIPLE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/e7789ed1-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014